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No. 93-1610

IN THE
Supreme Court of the United States
OCTOBER TERM, 1993

COLLINS LICENSING, L.P.,
Petitioner,

v.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

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Respondent, rather than defending the Federal Circuit's actual approach to reviewing the issue of obviousness, attempts to avoid review by portraying this case as one where the court applied the deferential level of review sought by petitioner. It bases this argument on a single reference to "substantial evidence" in the Federal Circuit's opinion. But this effort to bypass the broader issues raised in the petition is unavailing. The plain fact is that the Federal Circuit *always* reviews the question of obviousness as a *legal* issue, and did so here. *See* Pet. App. 2a ("[W]e hold that Claim 29 would have been obvious, if not fully anticipated by the prior art . . . ."). Moreover, this case is a paradigmatic illustration of the problems resulting from the Federal Circuit's willingness to decide this issue for itself, rather than confining its review to a determination whether there is substantial evidence of "nonobviousness" in the trial record.

1. Respondent's contention that petitioner is merely trying to transform a factual dispute into a legal one is demonstrably incorrect. To begin with, as respondent grudgingly acknowledges in a footnote, Br. in Opp. at 4, there is no doubt that the Federal Circuit rule governing review of the obviousness issue *requires* it to be treated as a legal question subject to plenary reconsideration on appeal. *See Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 762 (Fed. Cir. 1988), *cert. denied*, 493 U.S. 814 (1989); *Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1566-68 (Fed. Cir.), *cert. denied*, 481 U.S. 1052 (1987). To be sure, as we acknowledged in the petition, Pet. 15, the Federal Circuit understands that there are subsidiary facts that must be determined (if they are disputed) before the obviousness determination can be made. *See Newell*, 864 F.2d at 764 ("[T]he ultimate conclusion of obviousness, that is, *the application of the statutory standard to a set of facts*, is an issue of law, and like any other issue of law is subject to independent plenary review and determination by this court.") (emphasis added). And the court does say that it accords deference to the finder of fact with respect to these subsidiary factual questions. *See id.* What it refuses to do, however, is to treat the ultimate question of obviousness as factual.

Moreover, despite respondent's efforts to show otherwise, it is equally clear that the Federal Circuit followed its usual approach to review of obviousness questions in this case. Indeed, respondent conceded this point in the court below.[1] To begin with, the court cited *Newell*,

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[1] At the rehearing stage in the court below, respondent acknowledged that "[h]aving reviewed the factual basis for the obviousness analysis using the substantial evidence test, the Court's Opinion *properly reached the legal conclusion that Claim 29 was 'obvious,* if not fully anticipated.'" AT&T Response to Rehearing Petition at 8. And here as well, respondent acknowledges at one point that the Federal Circuit made a determination about obviousness rather than a determination about whether there was substantial evidence of nonobviousness. Br. in Opp. at 6 ("Based on the far more com-

supra, at the precise point in its opinion where it held that the patented invention was obvious. Pet. App. 6a. The court plainly thought it was following the same approach. And earlier in its opinion, the court flatly stated that "we *hold* that claim 29 would have been obvious, if not fully anticipated by the prior art." Pet. App. 2a (emphasis added). It then proceeded with its own independent "examination of [what] the prior art reveals," Pet. App. 4a, without referring to the substantial evidence test or even discussing the evidence in the record, including the expert testimony, supporting the jury's finding of nonobviousness.

It was only at the end of this process that the court acknowledged its obligation to accord deference to the jury verdict. Pet. App. 5a-6a. But its method for doing so was entirely consistent with the usual approach of reserving the ultimate question of obviousness to be decided independently by the court. The Federal Circuit identified a single subsidiary factual issue that, in its view, was especially significant, and referred to the "substantial evidence" standard *only with respect to that issue*. *Ibid.* ("[T]he jury would have had to find that the prior art does not show individual control of a time module or a space module. On this record, substantial evidence does not support such a finding."). Again, at no point did the court accord similar deference to the jury's *overall* determination on the ultimate issue of nonobviousness, or even review petitioner's evidence.

In sum, this case provides a fully appropriate vehicle for review of the Federal Circuit's approach to assessing the obviousness issue. Indeed, it is somewhat bizarre for respondent to defend against Supreme Court review by arguing that the court of appeals in this case departed, for no apparent reason, from the approach it has applied in dozens of other cases, and suddenly treated the issue

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plete record before it, the Federal Circuit properly concluded that the patent was invalid because it was obvious.")

of obviousness as factual and subject to deferential review. That is not what occurred.

2. Leaving aside its effort to avoid review by rewriting the decision below, respondent says very little about whether the Supreme Court should, in fact, decide whether obviousness is a factual or a legal issue. To begin with, its brief says nothing whatsoever about the merits of treating obviousness as a question of law, while "anticipation" and "utility" (to take two examples from the patent field) and negligence and scienter (to take two more from other areas of the law) are viewed as fact issues. *See* Pet. 11-12, 15-16. The reason, of course, is that this distinction makes no sense. It is more an accident of legal history than a result of reasoned analysis.

In a single footnote, respondent does make one argument against review—suggesting that this issue was long ago settled. Br. in Opp. at 4 n.3. But to the extent that respondent relies on *Graham v. John Deere Co.*, 383 U.S. 1 (1966), for support, it is glossing over a glaring problem. *Graham* said that the "ultimate question of patent *validity* is one of law." 383 U.S. at 17 (emphasis added). But, as we pointed out in the petition, this statement has never been understood as transforming two other bases for attacking validity—anticipation and non-utility under 35 U.S.C. §§ 101 and 102—into legal issues. *See* Pet. 12. *See also Shultz v. Moore*, 419 U.S. 930 (1974) (Douglas, J., dissenting from denial of certiorari and arguing that the Court still needed to resolve this very issue).

In the same footnote, respondent then asserts that "every court of appeals that addressed the question before the Federal Circuit was created also read *Graham* as holding that obviousness is a question of law predicated on underlying facts." Br. in Opp. at 4 n.3. It cites, however, only five cases, neglecting to note that at least two other circuits had precisely the opposite rule. *See Rosen v. Lawson-Hemphill, Inc.*, 549 F.2d 205, 209 (1st Cir.

1976) ("In this circuit, the question of obviousness vel non is essentially one of fact, . . . , and we will not reverse a district court's applications of the correct legal principles unless we believe them clearly erroneous.") (citations omitted); *Plastic Container Corp. v. Continental Plastics of Okla., Inc.*, 708 F.2d 1554, 1558 (10th Cir. 1983) ("The Tenth Circuit treats the ultimate issue of obviousness as a question of fact subject to the 'clearly erroneous' standard of review.").

For all of the reasons stated here and in the petition, it is clear on the merits that these two circuits had it right. But no other court is now able to challenge the prevailing consensus, and few other parties are likely to challenge that consensus and point out that it lacks any rational basis.[2] It is time for this important issue to be addressed by this Court.

3. Respondent is no more persuasive in its discussion of the Federal Circuit's treatment of the reexamination determinations made by the Patent and Trademark Office. It remains clear that, if these determinations are going to be admitted into evidence, there is a need for some standards for determining what weight they will be given. The PTO's conclusions become meaningless if they are not at least given serious consideration by a court in deciding whether to uphold a consonant jury verdict.

Certainly it is no answer that, in this case, the Federal Circuit had before it a more voluminous record, including live testimony and cross-examination. The truth is that the Federal Circuit did not rely on, or apparently con-

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[2] Thus, while respondent points to the fact that this Court denied review in *Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561 (Fed. Cir.), *cert. denied*, 481 U.S. 1052 (1987), a case where the Federal Circuit addressed this issue at some length after a remand from this Court, the reality is that neither party argued on remand that obviousness is a question of fact. *See id.* at 1567 n.5 ("Both parties and *amicus* agree that the question is one of law, though Dennison goes on to question whether it might be treated as one of fact.").

sider, the trial testimony concerning the relationship between petitioner's invention and the prior art. It simply read the prior art itself, reaching an interpretation diametrically opposed to that reached both by the jury and by the PTO. If it had considered the testimony, it would have realized that the testimony established that there was no linkage between the invention and one of the two key examples of prior art (Granello) and that petitioner's expert testimony and cross-examination of respondent's witness had undermined respondent's reliance on the other example of prior art (Mack). *See* Pet. 6-7. Reexamination determinations may not always constitute persuasive evidence, but, in these circumstances, it is difficult to see how the PTO decision upholding the patent could not constitute "substantial evidence" with respect to the issue of obviousness.

4. With respect to our request that the Court exercise its supervisory power to review the Federal Circuit's overall handling of this case, two points warrant reiteration. First, despite respondent's current effort to revise history, it simply did not argue obviousness in the Federal Circuit. The invalidity section in its main brief on appeal was expressly limited in its introductory section to an argument about the separate issue of "anticipation," a very different issue. Appellant's Main Brief at 26 ("[T]he evidence is so clear and convincing that reasonable jurors could only conclude that [the] claims . . . are invalid under 35 U.S.C. § 102 [anticipation]."). Moreover, if respondent had been arguing obviousness, it would have been required to address the multiple factors set forth by this Court in *Graham v. John Deere, supra*, and it did not do that either.[3]

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[3] In fact, the only references to obviousness in appellant's brief in the court of appeals (those cited here by respondent) were paraphrases of testimony, not arguments. Appellant's Main Brief at 6 ("Prof. Mack testified at trial and provided clear and convincing evidence that . . . both the Mack Article and Report anticipate and render obvious the asserted claims."); *id.* at 28 ("Mack testified

Yet the court of appeals proceeded to make a determination of obviousness, itself failing to apply fully the *Graham v. John Deere* factors.[4] And in so doing, it relied in significant part on one example of the prior art (Granello Fig. 5) that respondent had not even relied on at trial.

Respectfully submitted,

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that his 1972 Article and Report anticipated and rendered obvious the asserted patent claims.").

[4] Respondent contends, Br. in Opp. at 7, that the Federal Circuit did apply the *Graham* factors, but even it is only able to locate references to three of the factors. Like the court below, respondent totally ignores the so-called "secondary considerations" that must be considered under *Graham*. *See* 383 U.S. at 17. In addition, respondent is wrong when it says that the court below considered the third factor, "the level of ordinary skill in the pertinent art." *Ibid.; see* Br. in Opp. at 7. The only inquiry in the opinion with respect to this issue is in reference to one particular feature of the invention. The court of appeals never asked and never answered the question what was the level of ordinary skill in the art, as required by *Graham*.